

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 2565 – HB 2703

May 4, 2010

SUMMARY OF AMENDMENTS (015851, 017988): Establishes the applicable formula rate used to determine the effective rate on Build America Bonds (BABs) issued by local governments as the Prime Rate published by the governors of the Federal Reserve System plus seven percent on bonds issued prior to June 30, 2012.

FISCAL IMPACT OF ORIGINAL BILL:

Increase Local Revenue – Exceeds \$100,000/Permissive
Increase Local Expenditures – Exceeds \$200,000/Permissive/FY10-11
Exceeds \$100,000/Permissive/FY11-12 and Subsequent
Years

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Increase Local Expenditures –
Exceeds \$450,000/Permissive/FY10-11 to FY30-31

Increase Federal Expenditures –
Exceeds \$350,000/FY10-11 to FY30-31

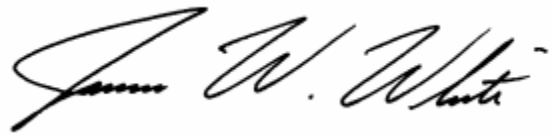
Assumptions applied to amendments:

- The American Recovery and Reinvestment Act of 2009 requires the United States Treasury Department to make payments to governments issuing BABs on each interest payment date equal to 35 percent of the total interest paid.
- According to the Office of the Comptroller, the coupon rate is 8 percent. Bonds will be issued for 20-year terms. The municipal interest rate is estimated to average 5.2 percent.
- Estimated annual interest expense is \$80,000 per \$1,000,000 in BABs issued (\$1,000,000 x 8%). The federal subsidy per \$1,000,000 in bonds issued will be \$28,000 (\$80,000 x 35%) and the portion owed by local governments will be \$52,000 (\$80,000 - \$28,000).

- According to the Comptroller, \$10 million in BABs will be issued resulting in a total annual interest expense of \$800,000 ($\$80,000 \times 10$). The 35 percent federal subsidy will result in an annual increase to federal expenditures of \$350,000 beginning FY10-11 and ending FY30-31 ($\$800,000 \times 35\%$) and an annual increase to local government expenditures of \$450,000 beginning FY10-11 and ending FY30-31.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

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